

NO.

**77-98**

Supreme Court, U. S.

**FILED**

**JUN 22 1977**

**MICHAEL RODAK, JR., CLERK**

IN THE  
SUPREME COURT OF THE UNITED STATES

October Term, 1977

THE PEOPLE OF THE STATE OF  
CALIFORNIA, acting by and  
through THE DEPARTMENT OF  
TRANSPORTATION,

Petitioner,

vs.

THE UNITED STATES OF  
AMERICA,

Respondent.

APPENDIX ONLY

PETITION FOR WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF CLAIMS

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# APPENDIX A

The California Department of Transportation brought a claim against the United States to recover additional costs incurred by the Department in acquiring the right-of-way for an interstate highway. The Court of Claims, Kashiwa, J., held that the State was not entitled to recover a sum representing the difference between replacement cost which the State had paid for the property and fair market value of the property, for which the State had been reimbursed.

Petition dismissed.

Highways 99-1/4

California Department of Transportation was entitled to recover from United States, under Federal-Aid Highways Act, only market value of school property obtained for use in construction of interstate highway, not greater cost of replacing school itself with another at different location. 23 U.S.C. §§ 101 et seq., 104, 104(b)(5), 105, 106, 106(a), 108, 108(a), 109, 110, 114, 120(c), 121(b), 315; Department of Transportation Act, § 6(a)(1), 49 U.S.C.A. § 1655 (a)(1); West's Ann.Cal.Const. Art. 1, § 14; U.S.C.A.Const. Amend. 5; 28 U.S.C.A. § 2501.

Milton B. Kane, Sacramento, Cal., atty. of record, for plaintiff. Gordon S. Baca, Sacramento, Cal., of counsel.

Stephen G. Anderson, with whom was Asst. Atty. Gen. Rex E. Lee, Washington, D. C., for defendant. Lawrence S. Smith, Washington, D. C., of counsel.

Before DAVIS, KASHIWA and KUNZIG, Judges.

ON PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT AND DEFENDANT'S CROSS MOTION FOR SUMMARY JUDGMENT

KASHIWA, Judge:

Plaintiff, the State of California, Department of Transportation, in this case asserts a claim founded upon an express contract with the United States under the Federal-Aid Highways Act (23 U.S.C. § 101, et seq. (1970)). Founding its claim under 23 U.S.C. § 106(a) (1970), plaintiff contends that it is entitled to the sum of \$158,941.68, which represents the additional costs incurred by the State highway department in acquiring the right of way for an interstate highway. This sum represents the difference between replacement cost which the State paid for property and fair market value on which the Federal Highway Administration reimbursed the State. Since this case propounds no genuine issue as to any material fact, it is properly before the court on cross motions for summary judgment. For the reasons set forth below, we agree with the defendant that under the Federal-Aid Highways Act plaintiff has been fully paid. We, therefore, grant defendant's motion for summary judgment.

## I.

The statutory and regulatory<sup>1</sup> scheme under which this case arises is as follows: The Federal-Aid Highways Act (also "Act")<sup>2</sup> provides for joint federal and state participation in the construction of certain highways, with the actual construction to be undertaken by the state "subject to the inspection and approval" of the Secretary of Transportation ("Secretary").<sup>3</sup> (§ 114; 49 U.S.C. § 1655(a)(1) (1970).) The Act prescribes the formula under which funds are apportioned among the several states for this purpose. (§ 104.) Highway projects must meet standards adopted by the Secretary under section 109, and states wishing to avail themselves of the benefits of federal assistance under the Act must submit their construction proposals to the Secretary for his approval. (§ 105.) The Secretary is authorized to make available to states funds for the acquisition of rights-of-way in anticipation of construction, under such rules and regulations as the Secretary may prescribe. Construction must take place within seven years thereafter. (§ 108(a) (1970).) If a proposed construction program is given approval, detailed plans, specifications and estimates must be submitted to the Secretary for his further approval. (§ 106.) When the Secretary approves the detailed plans for a specific project, the Act deems such approval "a contractual obligation of the Federal Government for the payment of its proportional contribution thereto." (§ 106(a).) "As soon as practicable" thereafter, a "formal project agreement" for the construction

and maintenance of the project must be entered into between the Secretary and the appropriate state highway agency. (§ 110.) After completion of the project in accordance with the plans and specifications and after approval of the final voucher by the Secretary, a state is entitled "to payment out of the appropriate sums apportioned to it of the unpaid balance of the Federal share payable on account of such project." (§ 121(b).) The Secretary is authorized to prescribe and promulgate rules and regulations for the carrying out of the provisions of the Act. (§ 315.)

As previously noted, section 108 of the Act provides for making available funds to the states for the acquisition of rights-of-way in advance of construction, subject to such rules and regulations as the Secretary may prescribe. Policy and Procedure Memorandum ("PPM") 21-4.1 was promulgated in December 1960, effective February 15, 1961.<sup>4</sup> The regulation is entitled "RIGHT-OF-WAY PROCEDURES (State Acquisitions Under Federal-aid Procedures)." The purpose of the memorandum is stated in paragraph 1:

The purpose of this memorandum is to prescribe the policies and procedures relating to Federal participation in right-of-way and property damage costs for which reimbursement is requested by the State under Federal-aid procedures.

Paragraph 5 of this regulation sets forth in detail numerous requirements which must be met by the state in order to obtain federal payments for right-of-way acquisitions. The standard of fair market value is referred to by the regulations as the basis for compensation for real property. For example, paragraph 5.j.(1) states, in part:

(1) Determination of Fair Market Value by State Reviewing Appraiser: Within each State highway department, one or more individuals, hereinafter referred to as reviewing appraisers, are authorized to determine the fair market value of real property, which amount is to govern negotiations and settlements. \* \* \*

Paragraph 4 of the regulation is captioned "STATE RIGHT-OF-WAY ORGANIZATION, POLICIES AND PROCEDURES." Paragraph 4.a requires that:

a. The State shall transmit under the signature of the chief officer of the State highway department, in triplicate, to the division engineer information as to the regulations, procedures, and manner in which right-of-way matters are handled by the State. Such information shall include, but not be limited to the following statements:

There follows a listing of 35 items of information that the state is required to submit to the federal authorities.

The information called for by item (14) of this listing is:

(14) When the State, in acquiring right-of-way, both by purchase and condemnation, becomes legally obligated to pay right-of-way costs.

Paragraph 3 of the regulation is captioned: "GENERAL PROVISIONS." Paragraph 3.a.(1) provides:

a. Under Federal law and regulations, participation of Federal funds is permitted in right-of-way and property damage costs incurred by the States for highway projects financed in whole or in part with Federal funds under the circumstances and to the extent set forth below:

(1) When there has been approval of a program and the State has been authorized to proceed with the right-of-way phase of a programmed project and the State subsequent to such authorization legally obligates itself under State law to pay right-of-way costs. The dates set forth by the State under paragraph 4a(14) shall be used in determining eligibility of right-of-way costs unless different dates are determined by Public Roads and included in its acceptance of the State's procedures.

As noted, paragraph 5 of the regulation, supra, sets forth numerous requirements that must be met by the state in order to obtain federal payments for right-of-way acquisitions. Paragraph 5.c provides, in part:

c. Either at the time of program approval or subsequently, Public Roads shall issue a letter of authorization to the State to proceed with (1) studies to determine the relative right-of-way costs and other factors pertinent to alternate construction locations including incidentals connected with the acquisition of rights-of-way on a selected construction location, or (2) to actually acquire rights-of-way on a selected construction location including incidentals connected therewith, or (3) for both. \* \* \*

Paragraph 6 of PPM 21-4.1 is captioned "ELIGIBILITY" and sets forth numerous criteria to be met in order for the right-of-way costs to be eligible for federal payment. Paragraph 6.a states:

a. The authorization by the division engineer to proceed with acquisition of right-of-way shall constitute approval of the necessity for the right-of-way to be acquired and the general eligibility for Federal participation in the cost of right-of-way items. Such authorization shall be in accordance with paragraph 5c.

Paragraph 6.u of the same regulation specifies:

u. The amounts required to be paid for lands in public ownership shall be justified in the same manner and to the same extent as though the acquisition involved a private owner.

Paragraph 6.u of PPM 21-4.1 was amended by paragraph 5.1 of PPM 80-1 which went into effect November 15, 1968. Paragraph 5.1 provides:

Generally, the amounts required to be paid for lands or improvements in public ownership shall be justified in the same manner and to the same extent as though the acquisition involved a private owner. The exception to the foregoing general rule would occur where the State highway department can demonstrate and the Director of Public Roads concurs that the functional replacement of the facility is necessary to preserve and protect the public's interest. In such instances Federal funds may participate in the depreciated reproduction cost of the improvements exclusive of betterments and the reasonable cost of acquiring a substitute site.

## II.

In the early 1960's, the California Division of Highways was developing plans for an interstate highway. The plans for the highway involved property known as the "McKinley School" in the Franklin-McKinley School District of Santa Clara County, California. In September 1963, the Division of Highways had an official appraisal made of the property. The appraisal report reflected the market value of the property as \$763,549.25.<sup>5</sup>

Under Federal-aid procedures, relating to federal participation in right-of-way and property damage costs for which the State would be requesting reimbursement, the California Highway Transportation Agency, Department of Public Works, Division of Highways, submitted the information required under PPM 21-4.1. Pursuant to paragraph 4.a of this regulation, supra, a statement dated April 1964 was formally transmitted to the Division Engineer, Bureau of Public Roads, Department of Commerce, Sacramento, California, by letter dated May 14, 1964.

By letter to the State Highway Engineer, Sacramento, California, dated November 17, 1964, the Division Engineer, Bureau of Public Roads, United States Department of Commerce, authorized the State to proceed with negotiations for, and the purchase of, the right-of-way that included the school property involved in the instant proceeding.

On June 16, 1965, the California Division of Highways entered into an agreement with the Franklin-McKinley School District of Santa Clara County,

California, and the California Department of General Services for the acquisition of the McKinley School property and for the construction of a replacement school. The United States was not a party to the agreement and was not involved in the negotiation.

On August 14, 1967, the Bureau of Public Roads, United States Department of Transportation, and the Division of Highways, Department of Public Works, State of California, entered into a formal Federal-Aid Project Agreement. This agreement confirms the effective date of the rights-of-way authorization, namely, November 17, 1964, and obligates federal funds for the project in the amount of \$19 million, the estimated total cost of the project being \$22,400,000. The agreement is bilateral, being signed by both parties, and provides, in pertinent part, as follows:

The State, through its Highway Department, having complied, or hereby agreeing to comply, with the terms and conditions set forth in (1) Title 23, U.S. Code, Highways, (2) the Regulations issued pursuant thereto by the Secretary of Commerce and, (3) the policies and procedures promulgated by the Federal Highway Administrator relative to the above designated project, and the Bureau of Public Roads having authorized certain work to proceed as evidence by the date entered opposite the specific item of work, Federal

funds are obligated for the project not to exceed the amount shown herein, the balance of the estimated total cost being an obligation of the State. Such obligation of Federal funds extends only to project costs incurred by the State after the Bureau of Public Roads authorization to proceed with the project involving such costs.

The Federal-Aid Highways Act provides a complicated formula for determining the federal share payable to a state for the highways built under its provisions; for highways of the category involved in this case in California, it can be stated, generally, that the share was about 92 percent. (See §§ 104(b)(5) and 120(c).) The state obtains payment of these funds by submitting requests for such payments in the form of vouchers, as prescribed by the Federal Highway Administrator. (25 Fed.Reg. 4162, May 11, 1960, § 1.31; 23 C.F.R. § 1.31.)

In due course, the date of which is not shown by plaintiff, the State Division of Highways requested payment of the federal share for the acquisition of the right-of-way involved herein. Although not expressly shown by plaintiff in its petition, brief or exhibits, the federal-share request by the State with respect to the McKinley School was apparently based on \$922,490.43, presumably the total cost of replacing the school purchased for the right-of-way with another at a different location.<sup>6</sup> The federal share

paid was based on the fair market value of the property, \$763,549.25.

The State's request for payment of the federal share, with respect to the McKinley School property, based on more than the market value of \$763,549.25 was rejected by the Bureau of Public Roads. The Bureau relied on paragraph 6.u of PPM 21-4.1, supra, which was applicable at the time of the State's acquisition on June 11, 1965, of the school property. After unsuccessfully exhausting its administrative remedies, on August 4, 1975, plaintiff filed its petition in this court, seeking judgment for \$158,941.68, plus interest thereon from June 16, 1965; its claim, founded upon § 106(a), represents an amount equal to the difference between replacement costs which the State paid for the McKinley property and fair market value on which the Federal Highway Administration reimbursed the State.

### III.

Plaintiff recognizes that its claim is founded upon an express contract with the United States. Section 106(a) provides that approval by the Secretary of the plans, specifications and estimates for a given highway project submitted by a state shall constitute a contractual obligation of the Federal Government for payment of its proportional share. In the instant case these steps were taken and a contract resulted. This contract is in the form of the "Federal-Aid Project Agreement," dated August 14, 1967. In this bilateral document, it is provided that plaintiff has complied, or thereby

agrees to comply with the terms and conditions set forth in Title 23, U.S.Code, Highways, the regulations issued pursuant thereto and "the policy and procedures promulgated by the Federal Highway Administrator" relative to the project. It, thus became contractually bound, inter alia, by the provisions of the policy and procedure memoranda of the Government. The "regulations" involved here, PPM 21-4.1, were issued December 30, 1960, effective February 15, 1961.<sup>7</sup> A review of the provisions of those regulations show clearly that the basis for determining the federal share payable to the State for the instant property acquired was fair market value of the property. Nevertheless, plaintiff argues that the clear intent of Congress is to participate in the "total" cost of the construction of the highways, "without unilateral administrative decision excluding any portion of the cost of construction by the State." Plaintiff submits that there is no statutory basis for PPM 21-4.1 and, in fact, that it is squarely in conflict with the statutes upon which it is based; also, to the extent that PPM 21-4.1 denies just compensation, it is in violation of the Fifth Amendment of the United States Constitution and in violation of Article I, Section 14 of the Constitution of California.<sup>8</sup> We do not agree with the plaintiff.

The statute authorizes the Secretary to make available to states funds for the acquisition of rights-of-way in anticipation of construction under such rules and regulations as he may prescribe. (§§ 108, 315.) Pursuant thereto, the Secretary prescribed regulations which were

published in the Federal Register, which provided, inter alia, that federal-aid funds shall not participate in any cost which is not incurred in conformity with the policies and procedures prescribed by the Administrator.<sup>9</sup> As shown, the policies and procedures which were prescribed by the Administrator and in effect at the time involved herein provided that the amounts be paid for property in public ownership were to be justified in the same manner and to the same extent as though the acquisition involved a private owner, who was to be paid, under the regulation, fair market value. (PPM 21-4.1, paragraph 6.u.) Thus, under the regulation, the concept of determining the compensation on the basis of fair market value applied to acquisitions of both private and public property. To so provide is clearly within the scope of the statute and the regulations; plaintiff points to nothing to the contrary that is of any validity. Plaintiff argues that the payment to the State must be based on the "total cost \* \* \* without unilateral administrative decision excluding any portion" of the State's cost of construction. This is incorrect. The regulation excludes numerous types of other costs which are not eligible for federal participation (see, e. g., PPM 21-4.1, paragraphs 6.b, 6.c, 6.i, 6.k, 6.m, 6.t). Furthermore, in a very recent case, the United States Court of Appeals for the Ninth Circuit upheld the principle that the terms of the Federal Highway Administration's Policy and Procedure Memorandum govern the amount payable to the state concerning highway programs under the Act and that the State of California was limited to such an amount

irrespective of the fact that it had expended more and sought recovery on the basis of the larger sum. The court specifically rejected the State's argument that it is entitled to recover on the basis of the "total cost" of the project, without regard to the regulations. People of the State of California v. United States, No. 75-1140 (9th Cir. September 30, 1976).

We also recognize plaintiff was on notice that the payment to it for the school property would be governed by PPM 21-4.1, under which the federal share was to be based on fair market value of the property. The State had notice not only of the regulations published in the Federal Register, but also of PPM 21-4.1, as shown by its submission to the federal authorities of the information and data called for by paragraph 4.a of PPM 21-4.1. Having knowledge of PPM 21-4.1 at the time it acquired the school property, plaintiff is bound by its terms regardless of whether the policy and procedure memorandum had been published as a regulation.<sup>10</sup> United States v. Aarons, 310 F.2d 341, 348 (2d Cir. 1962); Kessler v. Federal Communications Commission, 117 U.S.App.D.C. 130, 326 F.2d 673, 690 (1963). Furthermore, it is important to bear in mind that plaintiff, by a bilateral contract signed by representatives of defendant and of the State of California, agreed, *inter alia*, to comply with the terms and conditions set forth in the policies and procedures promulgated by the Federal Highway Administration. Having entered into an express contractual agreement with the Federal Government which provided the rules under which compensation was to be determined, it clearly is bound by that contract. This court has

so held in a similar situation, Eldorado Canyon Resort, Inc. v. United States, Ct.Cl., 538 F.2d 347 (Order of April 16, 1976); Bishop v. United States, 164 Ct.Cl. 717, 723 (1964) (Fifth Amendment taking cases). See also Commonwealth of Massachusetts v. Connor, 248 F.Supp. 656, 659 (D.Mass.), *aff'd*, 366 F.2d 778 (1st Cir. 1966). Having agreed to one basis of computing costs and determining the amount to be paid, the State cannot now disavow that express agreement. The terms of the contract govern and the claimant cannot recover on a different basis.

Nevertheless, plaintiff argues that the term "lands" as used in PPM 21-4.1, paragraph 6.u, *supra*, refers to lands only and not to improvements. Plaintiff reaches this conclusion by analyzing subsequently issued policy and procedure memoranda which use the phrase "lands or improvements." (See, e. g., PPM 80-1, paragraph 5.1, *supra*.) We, however, have carefully examined the 24 subparagraphs in paragraph 6, PPM 21-4.1, and have determined that the term "lands" as used in subparagraph 6.u means all real property. The other subparts of paragraph 6 use the terms "lands" and "real property" interchangeably; when the word "improvements" is used, it is in connection with rights-of-way acquired as land or real property. Furthermore, paragraph 5.q of PPM 21-4.1 shows clearly that the regulation uses the word "lands" to include improvements thereon, for it provides, in pertinent part:

When lands are acquired for right-of-way purposes, all private installations thereon, except utility facilities the retention of which is clearly justified,

shall be cleared therefrom prior to acceptance of the completed construction project, \* \*.

We find therefore, that there is no merit to plaintiff's contention in this regard.

Plaintiff has been paid in accordance with regulations to which it contractually agreed to be bound; it has no valid claim for any additional sum. We must, however, address plaintiff's constitutional argument.

Plaintiff argues that the provision under which the State was paid, paragraph 6.u of the regulation, "is unconstitutional as applied." Plaintiff first contends that the provision is in violation of the Fifth Amendment of the Constitution. We, however, do not find the Fifth Amendment applicable; plaintiff's claim is based solely upon an express contract with the United States. Next, plaintiff submits that under the California State Constitution the Federal Highway Administration "has no authority to enforce a regulation which requires a citizen of the State of California to accept less than just compensation nor does it have authority to force the State of California to pay less than just compensation when property is acquired by eminent domain." We feel that these are not the issues.

The Federal Highway Administration is not enforcing a regulation that "requires a citizen of the State of California to accept less than just compensation." As previously stated, defendant had an express contract with California under which the standard applied for payment is

made applicable by the terms of the agreement. The arrangement between the parties is purely contractual. Plaintiff recognizes this; its brief specifically states that its claim in this suit "is founded upon an express contract with the Federal Government under the Federal-Aid Highway Act, 23 U.S.C. Section 106(a)." Its motion for summary judgment also contains the identical statement. Since the relationship between the parties is contractual, and the claim is based on the express contract between the parties, the contract governs; under it, plaintiff has been paid in full and has no further claim against the defendant. Likewise, plaintiff's assertion that the Federal Highway Administration does not "have the authority to force the State of California to pay less than just compensation when property is acquired by eminent domain," is not an issue in the case. The Federal Highway Administration made an express contract with the California department of highways, whereby California, by virtue of its agreement with the defendant, agreed to accept the compensation prescribed by paragraph 6.u of PPM 21-4.1. The defendant's dealings were with the California highway department, not with an individual citizen of California. Obviously, there was no taking by the Federal Government from any landowner in California; the State of California had the only dealings with the individual landowners and it alone, not the Federal Government, is responsible for such dealings. In any event, plaintiff's argument is of no merit. In order to qualify for and receive federal funds under the Act, the State must comply with the applicable federal regulations; The Federal Government is not bound constitutionally or statutorily to grant federal

highway funds to states not complying with the federal guidelines. State of Nebraska, Department of Roads v. Tiemann, 510 F.2d 446, 448 (8th Cir. 1975); Port Authority of Saint Paul v. United States, 432 F.2d 455, 460, 193 Ct.Cl. 108, 117-118 (1970); and cases cited therein.<sup>11</sup>

Lastly, plaintiff argues that since the highway project was not completed prior to amendment of paragraph 6.u, PPM 21-4.1, by paragraph 5.1, PPM 80-1, then without retroactive waiver of the provisions of PPM 21-4.1, but by application of the regulation in effect at the time of payment, this court should allow California's claim. We find plaintiff's argument misleading. As previously demonstrated, PPM 21-4.1 was issued December, 1960, effective February 15, 1961. California became legally obligated to pay right-of-way costs for the McKinley School property on June 16, 1965, the date it executed the contract with the School District.<sup>12</sup> The amount payable to the California Division of Highways by the United States is governed by the regulations in effect on that date. On August 14, 1967, when California entered into the Federal-Aid Project Agreement with the United States, it knew that the amount it would receive from the United States would be on the basis of fair market value of the property. The new regulation, PPM 80-1, paragraph 5.1, did not become effective until November 15, 1968, over three years after California executed the contract with the School District for purchase of the McKinley property and more than one year after plaintiff entered into the Federal-Aid Project Agreement with the United States.

Thus, plaintiff agreed to pay the School District more than fair market value of the McKinley property based on its own volition and with knowledge that it would not be reimbursed by the United States for any sum greater than the amount payable on the basis of fair market value. As a result, there is no basis for applying the new regulation. The fact that the whole section of the highway being built was not completed until some time after the effective date of the new regulation is immaterial.

Pursuant to the contract between the parties and the regulations in effect at the time California became legally obligated to pay the right-of-way costs for the school property involved, plaintiff has been paid in full.<sup>13</sup>

#### CONCLUSION

For the foregoing reasons, we grant defendant's cross motion for summary judgment and deny plaintiff's motion for summary judgment. Plaintiff's petition is dismissed.

FOOTNOTES

1. In this opinion, we use the term "regulation" figuratively to refer to regulations published in the Federal Register and Code of Federal Regulations as well as to policy and procedure memoranda. See note 10, infra.
2. Unless otherwise indicated, all section references are to the Federal-Aid Highways Act, 23 U.S.C. § 101, et seq. (1970).
3. That Act was originally administered by the Department of Commerce. When the Department of Transportation was created in 1966, the functions, powers and duties of the Secretary of Commerce under the Act were transferred to the Secretary of Transportation.
4. The "regulations" involved herein are those issued by the Department of Commerce, Bureau of Public Roads, entitled Policy and Procedure Memorandum. See note 10, infra.
5. The appraisal reported the market value of the property as \$763,549.25, which is the sum of \$120,514.50 for land and \$643,034.75 for improvements that included structures, equipment, yard improvements and utilities.

6. Plaintiff's petition and its brief imply that the total cost of the new school was \$922,490.43; it claims the sum of \$158,941.68, which (except for an insignificant discrepancy of 50 cents) is the difference between \$922,490.43 and the appraised value of the school property, \$763,549.25. However, in neither its petition nor its brief has plaintiff set forth any proof or documentation of the said total cost of the new school.
7. See note 10, infra.
8. Article I, Section 14 of the Constitution of the State of California provides:

Private property shall not be taken or damaged for public use without just compensation having first been made to, or paid into court for, the owner, and no right of way or lands to be used for reservoir purposes shall be appropriated to the use of any corporation, except a municipal corporation or a county or the State or metropolitan water district, municipal utility district, municipal water district, drainage, irrigation, levee, reclamation or water conservation district, or similar public corporation until full compensation therefore be first made in money or ascertained and paid into court for the owner, irrespective of any benefits from

any improvement proposed by such corporation, which compensation shall be ascertained by a jury, unless a jury be waived, as in other civil cases in a court of record, as shall be prescribed by law; \* \* \*.

Article I, Section 14 was changed to Article I, Section 19, effective November 5, 1974.

9. The regulations were published in the Federal Register May 11, 1960, 25 Fed.Reg. 4162, et seq., and in the Code of Federal Regulations, 23 C.F.R. §§ 1.9, 1.14 and 1.32.

Section 1.9 provides as follows:

Federal-aid funds shall not participate in any cost which is not incurred in conformity with applicable Federal and State law, the regulations in this part, and policies and procedures prescribed by the Administrator. Federal funds shall not be paid on account of any costs incurred prior to authorization by the Administrator to the State highway department to proceed with the project or part thereof involving such cost.

Section 1.14 provides as follows:

Project agreements, and modifications thereof, shall be in forms satisfactory to the Administrator, evidencing acceptance by the State highway department of conditions to payment of Federal funds, as prescribed by Federal laws and the regulations in this part, and the amount of Federal funds obligated.

Section 1.32 provides as follows:

"The Administrator shall promulgate and require the observance of such policies and procedures, and may take such other action as he may deem necessary for carrying out the provisions and purposes of the Federal laws and the regulations in this part.

10. We recognize that the Department of Transportation had ruled that the Federal Highway Administration memoranda do not rise to the status of regulations, 23 C.F.R. § 1.32(a) (1973). However, this fact does not affect the result in the instant case since plaintiff had knowledge of the memorandum in issue at the time it acquired the McKinley property.

11. Plaintiff has not shown that the replacement value standard for public structures is so universally accepted in the United States that it might possibly be invalid for the Federal Highway Administration to refuse to accept it. A survey by the Government suggests that this standard is far from being universally adopted, and, though plaintiff cavils at the survey, it concedes flatly, in a post-argument submission to the court, that "the State of California does not contend that its recognition of the 'replacement cost' or 'substitute facilities' was a majority view in 1967" [when the contract in issue was executed].

12. In answer to paragraph 4.a.(14) of PPM 21-4.1, supra, requiring information as to when the State becomes legally obligated to pay right-of-way costs acquired by purchase, the State advised, in pertinent part, as follows:

The State becomes legally obligated to pay right of way costs at the time the right of way contract is executed by the District Engineer on behalf of the State. The contract has previously been executed by the grantor and approved by Headquarters Right of Way Office. At the time the contract is executed by the District Engineer a letter transmitting the fully executed contract to the grantor

is also prepared and the date of this letter is evidence of the date the State becomes legally obligated to pay.

\* \* \* \* \*

13. As an affirmative defense, defendant raised the question of whether plaintiff's claim is barred by the six-year statute of limitations, 28 U.S.C. § 2501 (1970), in that plaintiff's petition filed August 4, 1975, asserts a claim for compensation which accrued on June 16, 1965, the date of plaintiff's agreement with the school district. However, in open court during oral argument, defendant abandoned this defense; as a result, we need not discuss it.

## APPENDIX B

## APPENDIX B

## EMINENT DOMAIN Art. 1 § 14

§ 14. Eminent domain; just compensation; rights of way; reservoirs; payment of or security for compensation; logging or lumbering railroads

Sec. 14. Private property shall not be taken or damaged for public use without just compensation having first been made to, or paid into court for, the owner, and no right of way or lands to be used for reservoir purposes shall be appropriated to the use of any corporation, except a municipal corporation or a county or the State or metropolitan water district, municipal utility district, municipal water district, drainage, irrigation, levee, reclamation or water conservation district, or similar public corporation until full compensation therefor be first made in money or ascertained and paid into court for the owner, irrespective of any benefits from any improvement proposed by such corporation, which compensation shall be ascertained by a jury, unless a jury be waived, as in other civil cases in a court of record, as shall be prescribed by law; provided, that in any proceeding in eminent domain brought by the State, or a county, or a municipal corporation, or metropolitan water district, municipal utility district, municipal water district, drainage, irrigation, levee, reclamation or water conservation district, or similar public corporation, the aforesaid State or municipality or county or public corporation or district aforesaid may take immediate possession and use of any right of way or lands to be used for reservoir

purposes, required for a public use whether the fee thereof or an easement therefor be sought upon first commencing eminent domain proceedings according to law in a court of competent jurisdiction and thereupon giving such security in the way of money deposited as the court in which such proceedings are pending may direct, and in such amounts as the court may determine to be reasonably adequate to secure to the owner of the property sought to be taken immediate payment of just compensation for such taking and any damage incident thereto, including damages sustained by reason of an adjudication that there is no necessity for taking the property, as soon as the same can be ascertained according to law. The court may, upon motion of any party to said eminent domain proceedings, after such notice to the other parties as the court may prescribe, alter the amount of such security so required in such proceedings. The taking of private property for a railroad run by steam or electric power for logging or lumbering purposes shall be deemed a taking for a public use, and any person, firm, company or corporation taking private property under the law of eminent domain for such purposes shall thereupon and thereby become a common carrier. (Amended Oct. 10, 1911; Nov. 5, 1918; Nov. 6, 1928; Nov. 6, 1934.)

## AMENDMENT V

Criminal Proceedings and  
Condemnation of Property

[Section 1.] No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a grand jury, except in cases arising in the land or naval forces, or in the militia, when in actual service in time of war or public danger; nor shall any person be subject for the same offense to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

Proposed September 25, 1789; ratified December 15, 1791.

## AMENDMENT XIV

Citizenship, Representation, and  
Payment of Public Debt

Citizenship

Section 1. All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

Apportionment of Representatives

Section 2. Representatives shall be apportioned among the several States according to their respective numbers, counting the whole number of persons in each State, excluding Indians not taxed. But when the right to vote at any election for the choice of electors for President and Vice President of the United States, Representatives in Congress, the executive and judicial officers of a State, or the members of the Legislature thereof, is denied to any of the male inhabitants of such State, being twenty-one years of age, and citizens of the United States, or in any way abridged, except for participation in rebellion, or other crime, the basis of representation therein shall be reduced in the proportion which the number of such male citizens shall bear to the whole number of male citizens twenty-one years of age in such State.

Disqualification for Public Office

Section 3. No person shall be a Senator or Representative in Congress, or elector of President and Vice President, or hold any office, civil or military, under the United States, or under any State, who, having previously taken an oath, as a member of Congress, or as an officer of the United States, or as a member of any State Legislature, or as an executive or judicial officer of any State, to support the Constitution of the United States, shall have engaged in insurrection or rebellion against the same, or given aid or comfort to the enemies thereof. But Congress may by a vote of two-thirds of each House, remove such disability.

Public Debt, Guarantee of

Section 4. The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned. But neither the United States nor any State shall assume or pay any debt or obligation incurred in aid of insurrection or rebellion against the United States, or any claim for the loss or emancipation of any slave; but all such debts, obligations and claims shall be held illegal and void.

Power of Congress

Section 5. The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.

Proposed June 13, 1866; ratified  
July 9, 1868; certified July 28, 1868.

## APPENDIX C

APPENDIX C

TITLE 23

§ 101. Definitions and declaration of policy

(a) As used in this title, unless the context requires otherwise--

The term "apportionment" in accordance with section 104 of this title includes unexpended apportionments made under prior acts.

The term "construction" means the supervising, inspecting, actual building, and all expenses incidental to the construction or reconstruction of a highway, including locating, surveying, and mapping (including the establishment of temporary and permanent geodetic markers in accordance with specifications of the National Oceanic and Atmospheric Administration in the Department of Commerce), acquisition of rights-of-way, relocation assistance, elimination of hazards of railway grade crossings, acquisition of replacement housing sites, acquisition and rehabilitation, relocation, and construction of replacement housing, and improvements which directly facilitate and control traffic flow, such as grade separation of intersections, widening of lanes, channelization of traffic, traffic control systems, and passenger loading and unloading areas.

\* \* \* \* \*

§ 106. Plans, specifications, and estimates

(a) Except as provided in section 117 of this title, the State highway department shall submit to the Secretary for his approval, as soon as practicable after program approval, such surveys, plans, specifications, and estimates for each proposed project included in an approved program as the Secretary may require. The Secretary shall act upon such surveys, plans, specifications, and estimates as soon as practicable after the same have been submitted, and his approval of any such project shall be deemed a contractual obligation of the Federal Government for the payment of its proportional contribution thereto. In taking such action, the Secretary shall be guided by the provisions of section 109 of this title.

§ 120. Federal share payable

(c) Subject to the provisions of subsection (d) of this section, the Federal share payable on account of any project on the Interstate System provided for by funds made available under the provisions of section 108(b) of the Federal-Aid Highway Act of 1956 [70 Stat. 378, 23 USC 158] shall be increased to 90 per centum of the total cost thereof, plus a percentage of the remaining 10 per centum of such cost in any State containing unappropriated and unreserved public lands and nontaxable Indian lands, individual and tribal, exceeding 5 per centum of the total area of all lands therein, equal to the percentage that the area of such lands in such State is of its total area, except that such Federal share payable on any project in any State shall not exceed 95 per centum of the total cost of such project.

## APPENDIX D

APPENDIX D

U.S. DEPARTMENT OF COMMERCE  
BUREAU OF PUBLIC ROADS

POLICY AND PROCEDURE MEMORANDUM 21-4.1  
(December 30, 1960)

1. PURPOSE

The purpose of this memorandum is to prescribe the policies and procedures relating to Federal participation in right-of-way and property damage costs for which reimbursement is requested by the State under Federal-aid procedures.

2. EFFECTIVE DATE AND APPLICABILITY

a. The changes made by this revision are effective as of February 15, 1961, with respect to all actions taken thereafter. Acquisitions subsequent to January 31, 1958, and prior to February 15, 1961, shall be supported in accordance with PPM 21-4.1 issued January 31, 1958, and the Instructional Memorandums being superseded by this memorandum. Acquisitions subsequent to December 31, 1956, and prior to January 31, 1958, shall be supported in accordance with PPM 21-4.1 issued December 31, 1956. Acquisitions prior to December 31, 1956, shall be supported in accordance with Section 3 of GAM 343 issued November 3, 1953. To the extent reasonable all acquisitions started prior to February 15, 1961, but not completed as of that date, are to be supported in accordance with this revision.

b. The provisions of this memorandum are not applicable to secondary road plan projects except to the extent made applicable by the secondary road plan submitted by the State and accepted by the Commissioner.

### 3. GENERAL PROVISIONS

a. Under Federal law and regulations, participation of Federal funds is permitted in right-of-way and property damage costs incurred by the States for highway projects financed in whole or in part with Federal funds under the circumstances and to the extent set forth below:

(1) When there has been approval of a program and the State has been authorized to proceed with the right-of-way phase of a programed project and the State subsequent to such authorization legally obligates itself under State law to pay right-of-way costs. The dates set forth by the State under paragraph 4a(14) shall be used in determining eligibility of right-of-way costs unless different dates are determined by Public Roads and included in its acceptance of the State's procedures.

(2) When such costs are incurred and paid pursuant to and in conformity with State law, except as provided in paragraph 6k.

(3) When such costs actually result in disbursements from public highway funds of the acquiring agency in obtaining rights-of-way over lands owned by a State or its subdivisions.

(4) Federal-aid funds participation may not exceed the statutory limitation for the particular Federal-aid funds used.

(5) On projects financed pursuant to the provisions of Title 23, U.S. Code, Section 120(d), for the elimination of hazards of railway-highway crossings, participation in the cost of right-of-way may not exceed one half of such cost with no increase in public-land States.

(6) On public-land projects, and on defense access road projects as defined in Title 23, U.S. Code, Section 210, the extent of Federal participation will be in accordance with specific agreements between Public Roads and the State highway departments.

(7) Reimbursement for such cost shall be made only after the project agreement has been executed for the particular project involved.

b. There may be participation of Federal Funds, not to exceed the extent set forth in Paragraph 3a, in severance or consequential damages or both resulting from a highway improvement project upon an affirmative showing that the State highway department is obligated to pay such damages under State law, and such damages are of a type generally compensable in eminent domain and are determined by Public Roads to be generally reimbursable on Federal-aid highway projects.

\* \* \* \* \*

## 6. ELIGIBILITY

\* \* \* \* \*

u. The amounts required to be paid for lands in public ownership shall be justified in the same manner and to the same extent as though the acquisition involved a private owner.

U.S. DEPARTMENT OF TRANSPORTATION  
FEDERAL HIGHWAY ADMINISTRATION  
BUREAU OF PUBLIC ROADS

POLICY AND PROCEDURE MEMORANDUM 80-1  
(March 20, 1969)

1. PURPOSE

To prescribe the Bureau policies and procedures relating to right-of-way acquisition, occupancy, use and disposition.

2. EFFECTIVE DATE AND APPLICABILITY

a. The effective date of the 80 Series PPM's is July 1, 1967, except as otherwise provided. Previous memorandums shall govern all actions taken prior to July 1, 1967.

b. The provisions of the 80 Series PPM's are not applicable to secondary road plan projects, except to the extent made applicable by the secondary road plans submitted by the States and accepted by the Director and as required by paragraph 3a of PPM 80-5.

3. REIMBURSEMENT BASIS

a. Under Federal law and regulations, participation of Federal funds is permitted in right-of-way and property damage costs incurred by the States for highway projects financed in whole or in part with Federal funds under the circumstances and to the extent set forth below:

(1) When there has been approval of a program and the State has been authorized to proceed with the right-of-way phase

of a programmed project and the State subsequent to such authorization legally obligates itself under State law to pay right-of-way costs. The dates set forth by the State under paragraph 4a(14) shall be used in determining eligibility of right-of-way costs unless different dates are determined by Public Roads and included in its acceptance of the State's procedures.

(2) When such costs are incurred pursuant to and in conformity with State law, except as provided in paragraphs 5i, 5j and 5n of this memorandum.

(3) When such costs are recognized and recorded as a liability in the accounts of the highway department.

(4) Federal-aid funds participation may not exceed the statutory limitation for the particular Federal-aid funds used.

(5) On projects financed pursuant to the provisions of Title 23, U. S. Code, Section 120(d), for the elimination of hazards of railway-highway crossings, participation in the cost of right-of-way may not exceed one-half of such cost with no increase in public land States.

(6) On public-land projects, and on defense access roads projects, as defined in Title 23, U. S. Code, Sections 101 and 210, the extent of Federal participation will be in accordance with specific agreements between Public Roads and the State highway department.

(7) Reimbursement for such cost shall be made only after the project agreement has been executed for the project involved.

b. There may be participation of Federal funds, not to exceed the extent set forth in paragraph 3a, in severance or consequential damages or both resulting from a highway improvement project upon an affirmative showing that the State highway department is obligated to pay such damages under State law, and such damages are of a type generally compensable in eminent domain and are determined by Public Roads to be generally reimbursable on Federal-aid highway projects.

\* \* \* \* \*

## 5. GENERAL PROVISIONS

\* \* \* \* \*

1. Generally, the amounts required to be paid for lands or improvements in public ownership shall be justified in the same manner and to the same extent as though the acquisition involved a private owner. The exception to the foregoing general rule would occur where the State highway department can demonstrate and the Director of Public Roads concurs that the functional replacement of the facility is necessary to preserve and protect the public's interest. In such instances Federal funds may participate in the depreciated reproduction cost of the improvements, exclusive of betterments, and the reasonable cost of acquiring a substitute site.

U.S. DEPARTMENT OF TRANSPORTATION  
FEDERAL HIGHWAY ADMINISTRATION  
FEDERAL-AID HIGHWAY PROGRAM MANUAL

VOLUME 7 RIGHT-OF-WAY AND ENVIRONMENT  
CHAPTER 2 THE ACQUISITION FUNCTION  
SECTION 2 GENERAL PROVISIONS AND PROJECT PROCEDURES

SUBSECTION 1 FUNCTIONAL REPLACEMENT OF  
REAL PROPERTY IN PUBLIC  
OWNERSHIP

Par. 1. Purpose	Transmittal 28
2. Applicability	May 29, 1974
3. Authority	HRW-10
4. Federal Lands	
5. Functional Replacement	

1. PURPOSE

\* *This directive prescribes Federal Highway Administration (FHWA) policies on functional replacement of real property in public ownership.*

2. APPLICABILITY

*The provisions of this directive are applicable, to the extent practicable under State law, to all States and political subdivisions thereof that acquire real property for any highway or highway related project in which*

\* Regulatory material is italicized

*Federal funds will participate in any part of the right-of-way costs of the project. The provisions of paragraph 5 do not apply to real property owned by utilities or railroads.*

3. AUTHORITY

- a. 23 U.S.C. 315
- b. 42 U.S.C. 4633
- c. 23 CFR 1.32

4. FEDERAL LANDS

*Acquisition of real property in Federal ownership shall be in accordance with FHWA directives on Federal land transfers.*

5. FUNCTIONAL REPLACEMENT

- a. *Where the State highway department (SHD) so requests, and can, pursuant to State law, incur costs for the functional replacement of real property in public ownership, Federal funds may participate in such replacement costs provided that it is demonstrated and FHWA concurs that functional replacement is in the public interest. Application of functional replacement procedures is at the SHD's election, subject to FHWA approval of a SHD's request.*
- b. *For the purpose of this directive, functional replacement is defined as the replacement of real property, either lands or facilities, or both, acquired as a result of a highway or highway related project with lands or facilities, or both, which will provide equivalent utility.*

c. Application of this policy, and Federal participation in costs pursuant thereto require that:

- (1) the property to be functionally replaced is in public ownership,
- (2) State law permits the incurrence of functional replacement costs,
- (3) FHWA has concurred that functional replacement is in the public interest,
- (4) FHWA has granted authorization to proceed on such basis prior to incurrence of costs,
- (5) the functional replacement actually takes place, and the costs of replacement are actually incurred, and
- (6) replacement sites and construction are in compliance with existing codes, laws, and zoning regulations for the area in which the facility is located.

d. Federal Participation

- (1) Federal funds may participate in functional replacement costs on the following basis:
  - (a) the actual functional replacement cost of the facilities required to be replaced, and

- (b) the appraised current fair market value of the land to be acquired for highway purposes when the owning agency has land on which to relocate the facilities, or the reasonable cost of acquiring a functionally equivalent substitute site where lands in the same public ownership are not available or suitable.

- (2) Costs of increases in capacity and other betterments are not eligible for Federal participation except those necessary to replace utility; those required by existing codes, laws, and zoning regulations; and those related to reasonable prevailing standards for the type of facility being replaced.
- (3) Where it is found that the appraised fair market value of the property to be acquired exceeds the cost of functional replacement, Federal funds may participate in the fair market value amount.

e. Procedures

- (1) During the early stages of project development, SHD officials should meet with the owning agency to discuss the effect of a possible

acquisition and potential application of functional replacement procedures. The results of discussions and decisions concerning functional replacement should be included in negative declarations, and environmental impact and Section 4(f) statements if required on a project.

- (2) At the earliest practicable time, the SHD shall have the property appraised and establish an amount it believes to be just compensation, and shall advise the owning agency of the amount established. Subject to the requirements of this directive, the owning agency has the option of accepting the amount of compensation established by the appraisal process or accepting functional replacement. The owning agency may waive its right to have an estimate of compensation established by the appraisal process if it prefers functional replacement.
- (3) If the owning agency desires functional replacement, it should initiate a formal request to the SHD, and fully explain why it would be in the public interest.

- (4) If the SHD agrees that functional replacement is necessary and in the public interest, it must submit a specific request for FHWA concurrence. The request should include:
  - (a) cost estimate data relative to contemplated solutions (See Attachment 1 to this directive for a suggested format and items to be covered.),
  - (b) agreements reached at meetings between the SHD and the owning agency, and
  - (c) an explanation of the basis for its request.

The request shall include a statement that replacement property will be acquired in accordance with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 and applicable FHWA directives.

- (5) After concurrence by FHWA that functional replacement is in the public interest, FHWA may, at SHD request, authorize the SHD to proceed with the acquisition of the substitute site and to proceed with physical construction of minor structures, or in the case of major improvements, to proceed with development of detailed plans, specifications and estimates.

- (6) The plans, specifications, and estimates, and modifications thereof, shall be submitted to FHWA for review and approval in accordance with established procedures. Where major improvements are involved, advertising for bids and letting of the contract to construct the replacement facility may follow the general procedures utilized by the owning agency, if acceptable to the SHD and FHWA. The submission, where applicable, shall include provisions for SHD inspection during construction of the replacement facility.
- (7) Prior to FHWA concurrence in the award for actual construction, an agreement shall be entered into setting forth the rights, obligations and duties of each party with regard to the facility being acquired, the acquisition of the replacement site, and the construction of the replacement facility. The executed agreement shall also set forth how the costs of the new facility are to be shared between the parties.
- (8) The SHD's request for final payment shall include:

- (a) A statement signed by an appropriate official of the owning agency and the SHD certifying that the cost of the replacement facility has actually been incurred in accordance with the provisions of the executed agreement.
- (b) The statement shall also certify that a final inspection of the facility was made by the SHD and owning agency and that the SHD is released from any further responsibility.

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A summary of estimates or actual costs should be prepared to show applicable cost items. A suggested format is as follows:

<u>Cost Items</u>	<u>Acquisition Based on Market Value Concept</u>	<u>Cost to Acquire Substitute Property</u>
Land	\$ _____	_____
Buildings	_____	_____
Facilities	_____	_____
Damages	_____	_____
Moving Costs	_____	_____
Replacement Housing	_____	_____
Other Items	_____	_____ \$ _____
Total	\$ _____	

Cost to Cure or Functionally Replace

Buildings	\$ _____
Facilities	_____
Other Items	_____ (+) _____

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Nonparticipating Items (Betterments)

(Identify Items)	\$ _____
	_____
	_____ (-) _____
Total	\$ _____

Note: Exact breakdowns need not be given if property estimates are appropriate. Moving costs, replacement housing, and incidental expenses may be on averages or percentages similar to 104(b)5 estimates.

APPENDIX E

## APPENDIX E

AGREEMENT FOR THE STATE ACQUISITION OF  
THE MCKINLEY SCHOOL AND THE ACQUISITION  
AND CONSTRUCTION OF A REPLACEMENT SCHOOL

THIS AGREEMENT, executed this 16th  
day of June, 1965, by and between  
the State of California, acting by and  
through the Department of Public Works,  
Division of Highways, hereinafter called  
"Highways", and the Department of General  
Services, hereinafter called "General  
Services", and the Franklin-McKinley School  
District of Santa Clara County, herein-  
after called "School District".

## WITNESSETH THAT:

WHEREAS, in connection with the con-  
struction of the freeway described as Road  
04-SC1-17 it will be necessary to acquire  
certain School District property, more  
particularly described as the "McKinley  
School"; and

WHEREAS, by reason of the acquisition of the McKinley School, it will be necessary to provide for the construction of a new school on a substitute site;

NOW, THEREFORE, it is agreed by and between the parties hereto as follows:

A. SCHOOL DISTRICT SHALL:

(1) Immediately upon execution of this agreement, prepare plans and specifications for the construction of a new school on the site referred to in Paragraph B(1) hereinbelow, and all necessary incidents thereto, including, but not limited to, site preparation, paving, turfing, playground equipment, fencing and such items of onsite improvements as provided for from the general funds of the District as to the McKinley School, including, but not limited to, landscaping, sprinkler system and lawns. Said new school shall be of a size and quality of construction comparable to the McKinley

School in order to provide, as closely as possible, a new school of comparable utility, so as to leave the School District, upon completion of construction of the new school, in the same relative position as it was prior to the acquisition of the McKinley School.

(2) Upon approval of said plans and specifications by General Services, as provided for in Paragraph C(1), advertise, award and administer a construction contract in the manner prescribed by the Education Code of the State of California and other rules and regulations applicable thereto, for the construction of a new school.

(3) Present to General Services, for payment as provided for in Paragraph C(3), an itemized accounting of all monies expended and obligations incurred in connection with the construction of the new

school. All books, accounts and/or records of the District shall be open for review and audit by authorized representatives of Highways and General Services.

(4) Make every effort, where feasible, to utilize in the new school any equipment, such as furniture, desks, chairs and audiovisual equipment now located in the existing McKinley School. The final decision as to the feasibility of removing and resetting such equipment in the new school shall rest with the School District, subject to the approval of General Services.

(5) Upon completion and acceptance of construction of the new school, as referred to hereinabove, deliver to Highways a Grant Deed to the McKinley School (State Parcel 33003) free and clear of all liens, encumbrances, assessments, easements, leases and taxes, except:

(a) Covenants, conditions, restrictions and reservations of record, if any.

(b) Easements or rights of way over said land for public or quasi-public utility or public street purposes, if any.

(c) A future street line as shown on that certain record of survey for the School District filed for record November 9, 1959 in Book 83 of Maps at Page 56.

(6) Not later than thirty days after completion of construction of the new school and acceptance by the Governing Board of the District, deliver the property referred to in Paragraph A(5) hereinabove vacant

to Highways, in good order and condition, without further notice, and immediately thereafter deliver the keys thereto to the Division of Highways at 150 Oak Street, San Francisco, and also pay all closing utility bills up to and including the date of vacation.

(B) HIGHWAYS SHALL:

(1) At the earliest possible date, acquire for, and subsequently deliver to the School District, (as a substitute site for the McKinley School), a good and sufficient deed to the land outlined in red on the attached map, labeled Exhibit "A", and as described on attached Exhibit "B". Said conveyance shall be free and clear of all liens and encumbrances, except those exceptions set forth in Title Insurance and Trust Company's preliminary title report No. 252572, dated March 30, 1964. In the event the substitute site

cannot be acquired through a negotiated purchase, said site shall be acquired through a condemnation action pursuant to Streets and Highways Code, Section 104.2 et seq., and Highways shall assume all costs of handling the proceedings in connection therewith.

(2) Within 90 days after the substitute site has been acquired pursuant to the provisions of Paragraph B(1) hereinabove, clear the improvements located on said substitute site, leaving only concrete foundations and concrete flatwork; provided, however, that all mudsill steel tie bolts and reinforcing steel protruding from said remaining foundations shall be removed or sheared at all exposed surfaces of the concrete foundations; and in the event there are holes or basements under any of the buildings cleared, upon completion of the clearance operations

temporary barricades shall be constructed around holes or basements for the purpose of protecting pedestrians and animals from falling into such holes and basements.

(3) Within 30 days after execution of this agreement, deposit a warrant with the Treasurer of the County of Santa Clara in the amount of \$100,000.00, payable to the Treasurer of the County of Santa Clara, for the account of the School District, to provide for the payment of the plans and specifications for the new school, as referred to in Paragraph A(1) hereinabove.

Deposit a series of progress payments with the Treasurer of the County of Santa Clara, payable to the Treasurer of said County, for the account of the School District, in amounts to be determined by General Services. Each such progress payment shall be deposited within

30 days after notice in writing from General Services to do so. The total of all such progress payments shall not exceed \$744,776.00, which amount, together with the \$100,000.00 provided for hereinabove, represents the estimated cost to provide for the construction of the new school, including, but not limited to, architects' fees, title report fees, inspection fees, plans and specifications, relocation of equipment as referred to in Paragraph A(4), and appraisal fees in the amount of \$3,850.00 incurred by the School District in connection with the proposed acquisition and replacement of the McKinley School.

C. GENERAL SERVICES SHALL:

(1) Review and approve all plans and specifications for construction of the new school, including the relocation of equipment from the existing school to

the new school, as referred to in Paragraphs A(1) and A(4).

(2) In the event the District should elect to construct the new school on the substitute site of less than the present twenty-classroom McKinley School, determine the appropriate cash credit to remain in the School District account, as referred to in Paragraph B(3), which amount shall only be utilized for the construction of additional classrooms at a subsequent date, unless the use therefor is approved in writing for other purposes by General Services.

(3) Administer and authorize the necessary disbursements of the funds deposited as set forth in Paragraph B(3) hereinabove. Upon completion of the new school, and after all bills, fees and assessments have been presented for payment, a final accounting will be made,

and any excess monies on deposit, except any cash credits as provided for in Paragraph C(2) hereinabove, shall be returned to Highways. If a deficiency occurs, then Highways shall deposit funds to cover such deficiency with General Services.

IN WITNESS WHEREOF, The parties hereto have executed this Agreement this 16th day of June, 1965.

FRANKLIN-MCKINLEY SCHOOL DISTRICT  
OF SANTA CLARA COUNTY

By /s/ Jack Adams  
/s/ Wilbur F. Sattler  
/s/ John Feci  
/s/ Anthony A. Mazotti

STATE OF CALIFORNIA  
DEPARTMENT OF GENERAL SERVICES

By /s/ Paul I. Hoyenga  
Local Assistance Officer

STATE OF CALIFORNIA  
DEPARTMENT OF PUBLIC WORKS  
DIVISION OF HIGHWAYS

By /s/ R. A. Hayler

District Engineer